

**REPORT OF THE AUDIT OF THE
MUHLENBERG COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
MUHLENBERG COUNTY FISCAL COURT

June 30, 2009

The Auditor of Public Accounts has completed the audit of the Muhlenberg County Fiscal Court for fiscal year ended June 30, 2009.

We have issued unqualified opinions, based on our audit, on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Muhlenberg County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$11,775,337 as of June 30, 2009. The fiscal court had unrestricted net assets of \$3,099,147 in its governmental activities as of June 30, 2009, with total net assets of \$11,720,091. In its business-type activities, total net cash and cash equivalents were \$55,246 with total net assets of \$55,246. The fiscal court had total debt principal as of June 30, 2009 of \$11,830,955 with \$693,247 due within the next year.

Report Comments:

2009-01 Expenditures Should Be Paid Within 30 Days In Accordance With KRS 65.140
2009-02 The Jailer Should Ensure That All Accounts Are Reconciled Timely

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Rick Newman, Muhlenberg County Judge/Executive

Members of the Muhlenberg County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muhlenberg County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Muhlenberg County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Muhlenberg County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muhlenberg County, Kentucky, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Rick Newman, Muhlenberg County Judge/Executive

Members of the Muhlenberg County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Muhlenberg County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 28, 2010 on our consideration of Muhlenberg County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

2009-01 Expenditures Should Be Paid Within 30 Days In Accordance With KRS 65.140

2009-02 The Jailer Should Ensure That All Accounts Are Reconciled Timely

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen

Auditor of Public Accounts

August 28, 2010

MUHLENBERG COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

Rick Newman	County Judge/Executive
Daniel Bowles	Magistrate
Keith Dukes	Magistrate
David James	Magistrate
Dwight Jordan	Magistrate
Tommy Watkins	Magistrate

Other Elected Officials:

Darris Russell	County Attorney
Mark Curry	Jailer
Gaylan Spurlin	County Clerk
Janet Hearld	Circuit Court Clerk
Charles E. Perry	Sheriff
Bill Alward	Property Valuation Administrator
Tony Armour	Coroner

Appointed Personnel:

Bob Lewis	County Treasurer
Laura Montgomery	Finance Officer

MUHLENBERG COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

MUHLENBERG COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 3,100,291	\$ 55,246	\$ 3,155,537
Total Current Assets	<u>3,100,291</u>	<u>55,246</u>	<u>3,155,537</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	930,125		930,125
Land	2,047,585		2,047,585
Land Improvements	22,304		22,304
Buildings	15,157,589		15,157,589
Vehicles and Equipment	2,113,175		2,113,175
Infrastructure	179,977		179,977
Total Noncurrent Assets	<u>20,450,755</u>		<u>20,450,755</u>
Total Assets	<u>23,551,046</u>	<u>55,246</u>	<u>23,606,292</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	625,000		625,000
Financing Obligations Payable	68,247		68,247
Total Current Liabilities	<u>693,247</u>		<u>693,247</u>
Noncurrent Liabilities:			
Bonds Payable	10,590,000		10,590,000
Financing Obligations Payable	547,708		547,708
Total Noncurrent Liabilities	<u>11,137,708</u>		<u>11,137,708</u>
Total Liabilities	<u>11,830,955</u>		<u>11,830,955</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	8,619,800		8,619,800
Restricted For:			
Capital Projects	631		631
Debt Service	513		513
Unrestricted	3,099,147	55,246	3,154,393
Total Net Assets	<u>\$ 11,720,091</u>	<u>\$ 55,246</u>	<u>\$ 11,775,337</u>

The accompanying notes are an integral part of the financial statements.

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MUHLENBERG COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

MUHLENBERG COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 5,517,565	\$ 150,596	\$ 3,628,676	\$ 121,500
Protection to Persons and Property	3,070,292	2,086,564	812,923	408,441
General Health and Sanitation	908,283	297,062		
Social Services	138,235			
Recreation and Culture	348,272	71,578	12,115	
Roads	1,108,449		2,387,620	
Debt Service	1,337,284			
Capital Projects	2,491,515			
Total Governmental Activities	14,919,895	2,605,800	6,841,334	529,941
Business-type Activities:				
Jail Canteen	509,494	513,449		
Total Business-type Activities	509,494	513,449		
Total Primary Government	\$ 15,429,389	\$ 3,119,249	\$ 6,841,334	\$ 529,941

General Revenues:

Taxes:

Real Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,616,793)	\$	\$ (1,616,793)
237,636		237,636
(611,221)		(611,221)
(138,235)		(138,235)
(264,579)		(264,579)
1,279,171		1,279,171
(1,337,284)		(1,337,284)
(2,491,515)		(2,491,515)
(4,942,820)		(4,942,820)
	3,955	3,955
	3,955	3,955
(4,942,820)	3,955	(4,938,865)
1,100,327		1,100,327
187,488		187,488
2,970,104		2,970,104
1,349,649		1,349,649
1,034,688		1,034,688
5,593	75	5,668
6,647,849	75	6,647,924
1,705,029	4,030	1,709,059
10,015,062	51,216	10,066,278
\$ 11,720,091	\$ 55,246	\$ 11,775,337

The accompanying notes are an integral part of the financial statements.

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MUHLENBERG COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

MUHLENBERG COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
ASSETS				
Cash and Cash Equivalents	\$ 1,639,437	\$ 67,844	\$ 449,230	\$ 212,996
Total Assets	<u>1,639,437</u>	<u>67,844</u>	<u>449,230</u>	<u>212,996</u>
FUND BALANCES				
Reserved for:				
Encumbrances	88,818	34,601	62,836	
Unreserved:				
General Fund	1,550,619	33,243	386,394	212,996
Special Revenue Funds				
Capital Projects Fund				
Debt Service Fund				
Total Fund Balances	<u>\$ 1,639,437</u>	<u>\$ 67,844</u>	<u>\$ 449,230</u>	<u>\$ 212,996</u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2009
(Continued)

Local Government Economic Development Fund	Non- Major Funds	Total Governmental Funds
<u>\$ 361,551</u>	<u>\$ 369,233</u>	<u>\$ 3,100,291</u>
<u>361,551</u>	<u>369,233</u>	<u>3,100,291</u>
45,070		231,325
316,481		2,499,733
	368,089	368,089
	631	631
	<u>513</u>	<u>513</u>
<u>\$ 361,551</u>	<u>\$ 369,233</u>	<u>\$ 3,100,291</u>

Reconciliation Of The Balance Sheet - Governmental Funds To The Statement Of Net Assets:

Total Fund Balances	\$ 3,100,291
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	24,869,559
Depreciation	(4,418,804)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Bonds	(11,215,000)
Financing Obligations	<u>(615,955)</u>
Net Assets Of Governmental Activities	<u>\$ 11,720,091</u>

The accompanying notes are an integral part of the financial statements.

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MUHLENBERG COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

MUHLENBERG COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 1,647,381	\$	\$	\$
In Lieu Tax Payments	2,598,814			
Excess Fees	1,349,649			
Intergovernmental	921,422	1,394,007	2,317,785	1,198,532
Charges for Services	298,124		38,144	
Miscellaneous	367,858	441,967	158,118	
Interest	4,173			350
Total Revenues	<u>7,187,421</u>	<u>1,835,974</u>	<u>2,514,047</u>	<u>1,198,882</u>
EXPENDITURES				
General Government	2,567,508			40,000
Protection to Persons and Property	608,314		1,927,814	197,000
General Health and Sanitation	895,454			
Social Services	116,919			
Recreation and Culture	244,189			
Roads		2,098,452		404,155
Debt Service	13,485	535,439		555,843
Capital Projects	3,954	630,631		
Administration	1,264,703		555,028	
Total Expenditures	<u>5,714,526</u>	<u>3,264,522</u>	<u>2,482,842</u>	<u>1,196,998</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,472,895</u>	<u>(1,428,548)</u>	<u>31,205</u>	<u>1,884</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds		630,631		
Transfers From Other Funds	837,049	1,200,000		363,000
Transfers To Other Funds	(1,563,000)	(400,000)		(363,000)
Total Other Financing Sources (Uses)	<u>(725,951)</u>	<u>1,430,631</u>		
Net Change in Fund Balances	746,944	2,083	31,205	1,884
Fund Balances - Beginning	892,493	65,761	418,025	211,112
Fund Balances - Ending	<u>\$ 1,639,437</u>	<u>\$ 67,844</u>	<u>\$ 449,230</u>	<u>\$ 212,996</u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Local Government Economic Development Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 1,647,381
		2,598,814
		1,349,649
2,323,175	1,289,045	9,443,966
		336,268
310	275,000	1,243,253
500	570	5,593
<u>2,323,985</u>	<u>1,564,615</u>	<u>16,624,924</u>
183,289		2,790,797
121,187		2,854,315
		895,454
		116,919
56,601		300,790
		2,502,607
	790,383	1,895,150
1,825,319	31,611	2,491,515
	835,812	2,655,543
<u>2,186,396</u>	<u>1,657,806</u>	<u>16,503,090</u>
137,589	(93,191)	121,834
		630,631
		2,400,049
	(59)	(2,326,059)
	(59)	704,621
137,589	(93,250)	826,455
223,962	462,483	2,273,836
<u>\$ 361,551</u>	<u>\$ 369,233</u>	<u>\$ 3,100,291</u>

The accompanying notes are an integral part of the financial statements.

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**MUHLENBERG COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

MUHLENBERG COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ 826,455
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Disposal of Asset Held for Resale	(430,074)
Asset Disposed of, Net Book Value	(1,700)
Capital Outlay	1,593,754
Depreciation Expense	(642,697)

Internal Service Funds are used by management to charge

the cost of health insurance to individual funds. The net revenues (expenses) of this fund are reported with governmental activities.	(155,236)
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The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Short Term Lease Payments	430,074
Financing Obligation Proceeds	(630,631)
Bond Issuance	
Financing Obligations Principal Payments	95,084
Bond Principal Payments	<u>620,000</u>

Change in Net Assets of Governmental Activities	<u>\$ 1,705,029</u>
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MUHLENBERG COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

MUHLENBERG COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 55,246
Total Current Assets	<u>55,246</u>
Net Assets	
Unrestricted	55,246
Total Net Assets	<u><u>\$ 55,246</u></u>

The accompanying notes are an integral part of the financial statements.

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MUHLENBERG COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

MUHLENBERG COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Jail Canteen Fund	Health Insurance Fund
Operating Revenues		
Inmate Accounts	\$ 513,449	\$
Total Operating Revenues	<u>513,449</u>	
Operating Expenses		
Cost of Sales	217,349	
Inmate Refunds	34,933	
Jail Fees	211,593	
Sales Tax	5,515	
Entertainment	8,863	
Equipment	8,118	
Claims		81,398
Miscellaneous	23,123	
Total Operating Expenses	<u>509,494</u>	<u>81,398</u>
Operating Income (Loss)	<u>3,955</u>	<u>(81,398)</u>
Nonoperating Revenues (Expenses)		
Interest Income	<u>75</u>	<u>158</u>
Total Nonoperating Revenues (Expenses)	<u>75</u>	<u>158</u>
Income (Loss) before Transfers	4,030	(81,240)
Transfers Out		(73,990)
Change In Net Assets	4,030	(155,230)
Total Net Assets - Beginning (Restated)	51,216	155,230
Total Net Assets - Ending	<u>\$ 55,246</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

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MUHLENBERG COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

MUHLENBERG COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	<u>Business-Type Activities -</u>	<u>Governmental Activities -</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Jail Canteen Fund</u>	<u>Health Insurance Fund</u>
Cash Flows From Operating Activities		
Receipts From Customers	\$ 513,449	\$
Cost of Sales	(217,349)	
Jail Fees	(211,593)	
Inmate Refunds	(34,933)	
Sales Tax	(5,515)	
Entertainment	(8,863)	
Equipment	(8,118)	
Claims		(81,398)
Miscellaneous	(23,123)	
Net Cash Provided By Operating Activities	<u>3,955</u>	<u>(81,398)</u>
Cash Flows From Noncapital Financing Activities		
Transfers To Other Funds		(73,990)
Net Cash Provided By Noncapital Financing Activities		<u>(73,990)</u>
Cash Flows From Capital and Related Financing Activities		
Net Cash (Used) Provided By Capital and Related Financing Activities		<u>(73,990)</u>
Cash Flows From Investing Activities		
Interest Earned	75	158
Net Cash Provided By Investing Activities	<u>75</u>	<u>158</u>
Net Increase (Decrease) in Cash and Cash Equivalents	4,030	(155,230)
Cash and Cash Equivalents - July 1 (Restated)	51,216	155,230
Cash and Cash Equivalents - June 30	<u>\$ 55,246</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

	Business-Type Activities -	Governmental Activities -
	Enterprise Fund	Internal Service Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Jail Canteen Fund	Health Insurance Fund
Operating Income (Loss)	\$ 3,955	\$ (81,398)
Net Cash Provided By Operating Activities	<u>\$ 3,955</u>	<u>\$ (81,398)</u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Muhlenberg County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Muhlenberg County Justice Center Corporation

The Muhlenberg County Fiscal Court has the authority to appoint a voting majority of the Justice Center Corporation's (Corporation) Board of Directors. The Fiscal Court also has the ability to approve or modify the Corporation's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Director's, or otherwise impose its will on the Corporation. In addition, the fiscal court is financially accountable for the Corporation, legally entitled to the Corporation's resources as well as legally obligated for the Corporation's debt. Financial information of the Justice Center Corporation is blended within Muhlenberg County's financial statements.

C. Muhlenberg County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Muhlenberg County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Muhlenberg County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The primary government reports the governmental activities using the economic resources measurement focus and the modified cash basis of accounting. Revenues are recognized when received and expenses are recognized when paid, except for the recognition of depreciation expense on the statement of activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Local Government Economic Assistance Fund - The revenues for this fund are derived from local coal and mineral taxes passed through the Commonwealth of Kentucky. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Development Fund - The primary purpose of this fund is to account for economic development within the county. The primary sources of revenue for this fund are reimbursements from the state government.

The primary government also has the following non-major funds: Rails to Trails Fund, Pennyryle Narcotics Fund, Paradise Park Fund, Justice Center Corporation Construction Fund, and Justice Center Corporation Sinking Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Local Government Economic Development Fund, Rails to Trails Fund, Pennyryle Narcotics Fund, and Paradise Park Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Justice Center Corporation Construction Bond Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Justice Center Corporation Construction Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest. Debt Service is provided through annual transfers from the General Fund in the amount of the debt service requirements for the year.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) statements or interpretations issued after November 30, 1989, unless the Government Accounting Standards Board (GASB) specifically adopts such FASB statements of interpretations.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following major proprietary funds:

Enterprise Fund

The primary government reports the following Enterprise Fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Internal Service Fund

The primary government reports the following Internal Service Fund:

Health Insurance Fund - This fund accounts for funds received from utility companies and remitted to the local school boards.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	10-60
Buildings and Building Improvements	\$ 10,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 10,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Muhlenberg County Justice Center Corporation Construction Fund (Capital Projects Fund) and Muhlenberg County Justice Center Corporation Sinking Fund (Debt Service Fund) because bond indentures and other relevant contractual provisions require specific payment to and from these funds annually and transfers are budgeted in the Jail Fund to comply with these requirements. The Department for Local Government does not require these funds to be budgeted.

The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses made from this fund.

J. Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Muhlenberg County Fiscal Court: Paradise Park Industrial Park and Bluegrass Crossing Industrial Park.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2009, all deposits of the county were covered by FDIC insurance or a properly executed collateral security agreement.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 2,047,585	\$	\$	\$ 2,047,585
Construction In Progress	2,011,611	471,696	(1,553,182)	930,125
Total Capital Assets Not Being Depreciated	4,059,196	471,696	(1,553,182)	2,977,710
Capital Assets, Being Depreciated:				
Buildings	15,299,675	1,608,736		16,908,411
Vehicles and Equipment	3,706,967	1,066,504	(17,000)	4,756,471
Land Improvements	29,190			29,190
Infrastructure	197,777			197,777
Total Capital Assets Being Depreciated	19,233,609	2,675,240	(17,000)	21,891,849
Less Accumulated Depreciation For:				
Buildings	(1,509,573)	(241,249)		(1,750,822)
Vehicles and Equipment	(2,262,021)	(396,575)	15,300	(2,643,296)
Land Improvements	(5,573)	(1,313)		(6,886)
Infrastructure	(14,240)	(3,560)		(17,800)
Total Accumulated Depreciation	(3,791,407)	(642,697)	15,300	(4,418,804)
Total Capital Assets, Being Depreciated, Net	15,442,202	2,032,543	(1,700)	17,473,045
Governmental Activities Capital Assets, Net	\$ 19,501,398	\$ 2,504,239	\$ (1,554,882)	\$ 20,450,755

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 147,197
Protection to Persons and Property	215,977
General Health and Sanitation	12,829
Social Services	21,316
Recreation and Culture	47,482
Roads	197,896
Total Depreciation Expense - Governmental Activities	<u>\$ 642,697</u>

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Short-term Debt

A. Line of Credit

In November 2007, Muhlenberg County signed a promissory note with First National Bank in the amount of \$1,000,125 at 2.490% interest rate. The line of credit had no activity for the fiscal year ended June 30, 2009.

B. Leases - Trucks

On December 6, 2007, the Muhlenberg County Fiscal Court entered into a one-year lease purchase agreement with the Bank of New York for the purpose of purchasing trucks that would be placed in service for one year and then resold. The principal amount borrowed was \$430,074 with an interest rate of 4.322%. The agreement requires monthly interest payments and a lump sum principal payment due one year from the date of origination. As of June 30, 2009, the balance on this agreement was zero.

C. Changes In Short-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Primary Government:				
<u>Governmental Activities</u>				
Leases	\$ 430,074	\$	\$ 430,074	\$
Governmental Activities				
Short-term Liabilities	<u>\$ 430,074</u>	<u>\$ 0</u>	<u>\$ 430,074</u>	<u>\$ 0</u>

Note 5. Long-term Debt

A. Detention Center

On March 1, 2007, the Muhlenberg County Fiscal Court advance refunded the detention center general obligation bonds, 2000 series, issued by Muhlenberg County Fiscal Court. Payment due on or after March 1, 2007 were paid from the escrow account. The bonds were called on August 1, 2009. Total bonds outstanding as of June 30, 2009 were \$5,565,000.

B. Justice Center

The Muhlenberg County Justice Center Corporation ('The Corporation') issued First Mortgage Revenue Bonds, Series 2002, on December 1, 2002. The purpose of this bond issue is for i) constructing a new judicial center for lease to the Administrative Office of the Courts; ii) capitalizing interest for twelve (12) months; iii) paying in full the outstanding loan between the County and Old National Trust Company; and iv) paying the costs of issuance of the bonds. The issue amount of the bonds was \$6,955,000.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

B. Justice Center (Continued)

The Corporation entered into a lease agreement with the Commonwealth of Kentucky, Administrative Office of the Courts (AOC). The Corporation leases a portion of the Project Site and the Project, along with improvements thereon and to be constructed thereof, to AOC for an initial period from the occupancy date until June 30, 2024, at the agreed and stipulated rentals equal to the AOC use allowance. The maximum use allowance is set at \$556,700 per year. The rental amount is anticipated to be adequate to pay 100% of the net debt service on the bonds. On July 1 of each even numbered year, this lease may be renewed by AOC for another biennial period of two years. Interest on the bonds is payable each March 1 and September 1. The bonds matured as to principal on September 1, 2005 and each September 1 thereafter. The interest rate on the bonds ranges from 1.55% to 4.60%.

Bonds outstanding as of June 30, 2009 totaled \$5,650,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 280,000	\$ 230,108
2011	290,000	220,483
2012	300,000	209,858
2013	315,000	198,323
2014	325,000	186,000
2015-2019	1,850,000	716,345
2020-2024	2,290,000	268,886
Totals	<u>\$ 5,650,000</u>	<u>\$ 2,030,003</u>

C. Detention Center Refunding Bonds

On March 1, 2007, the Muhlenberg County Fiscal Court issued \$6,255,000 General Obligation Refunding Bonds, Series 2007, for the purpose of (i) refunding, in advance of maturity, the outstanding County of Muhlenberg, Kentucky General Obligation Improvement Bonds (Detention Facilities Project), Series 2000 and (ii) paying the costs of issuing the bonds. Interest on the bonds will be payable semi-annually on February 1 and August 1 of each year commencing August 1, 2007. The interest rate on the bonds ranges from 3.5% to 3.75%. The bonds will mature on August 1 of each year beginning August 1, 2007. The outstanding balance as of June 30, 2009 was \$5,565,000.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

C. Detention Center Refunding Bonds (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 345,000	\$ 197,837
2011	355,000	185,150
2012	365,000	172,100
2013	395,000	158,325
2014	400,000	143,916
2015-2019	2,190,000	489,949
2020-2022	1,515,000	86,720
Totals	<u>\$ 5,565,000</u>	<u>\$ 1,433,997</u>

D. Waterline Lease

On November 12, 1992, the Muhlenberg County Fiscal Court entered into a 20-year capital lease purchase agreement with the Kentucky Association of Counties Leasing Trust Program for construction of waterlines. The principal amount borrowed was \$147,000 with an interest rate of 5.492%. The agreement requires monthly payments of interest and annual payments of principal.

The outstanding balance as of June 30, 2009, was \$33,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 10,000	\$ 2,839
2011	11,000	1,202
2012	12,000	456
Totals	<u>\$ 33,000</u>	<u>\$ 4,497</u>

E. Gradall Loan

On August 7, 2008, the Muhlenberg County Fiscal Court entered into a 3-year loan agreement with the First National Bank for purchase of a Gradall. The principal amount borrowed was \$176,843 with an interest rate of 3.6%. The agreement requires monthly payments of interest and annual payments of principal.

The outstanding balance as of June 30, 2009, was \$129,167. Future principal and interest requirements are:

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

E. Gradall Loan (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 58,247	\$ 3,377
2011	60,616	1,474
2012	10,304	44
Totals	<u>\$ 129,167</u>	<u>\$ 4,895</u>

F. Gradall Loan

On November 3, 2005, the Muhlenberg County Fiscal Court entered into a 3-year loan agreement with the First National Bank for purchase of a Gradall. The principal amount borrowed was \$256,290 with an interest rate of 3.6%. The agreement requires monthly payments of interest and annual payments of principal.

The outstanding balance as of June 30, 2009, was zero.

G. Leases – Trucks

On December 22, 2008, the Muhlenberg County Fiscal Court entered into a five year lease purchase agreement with the Bank of New York for the purpose of purchasing trucks that would be placed in service. The principal amount borrowed was \$453,788 with an interest rate of 3.4%. The agreement requires monthly interest payments and a lump sum principal payment due one year from the date of origination. As of June 30, 2009, the balance on this agreement was \$453,788.

H. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Bonds	\$ 11,835,000	\$	\$ 620,000	\$11,215,000	\$ 625,000
Financing Obligations (Restated)	80,408	630,631	95,084	615,955	68,247
Governmental Activities					
Long-term Liabilities	<u>\$ 11,915,408</u>	<u>\$ 630,631</u>	<u>\$ 715,084</u>	<u>\$11,830,955</u>	<u>\$ 693,247</u>

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$17,234 in interest on short-term debt, \$449,126 in interest on bonds and \$6,323 in interest on financing obligations.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous who begin participation on or after September 1, 2008, must meet the rule of 87 (members age plus years of service credit must equal 87 and the member must be a minimum of 57 years of age) or the member is age 65 with minimum of 60 months service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 8. Health Insurance Fund

Muhlenberg County Fiscal Court elected to begin a partially self-funded health insurance plan as of May 1, 2003. During the fiscal year ended June 30, 2008, the County decided to discontinue the self-insurance fund. The County transferred \$73,990 to the General Fund during fiscal year 2009. The Health Insurance Fund had a balance of \$0 as June 30, 2009.

Note 9. Prior Period Adjustments

The beginning net assets of business-type activities has been restated to include a depository account that was excluded in the prior year. The beginning fund balance of \$49,618 was increased by \$1,598, resulting in a restated beginning balance of \$51,216.

The beginning net assets of governmental activities has been restated for a debt payment that was improperly included in the prior year. The beginning fund balance of \$10,015,102 was decreased by \$40, resulting in a restated beginning balance of \$10,015,062.

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,599,500	\$ 1,599,500	\$ 1,647,381	\$ 47,881
In Lieu Tax Payments	2,200,000	2,200,000	2,598,814	398,814
Excess Fees	1,355,000	1,355,000	1,349,649	(5,351)
Licenses and Permits	32,500	32,500		(32,500)
Intergovernmental Revenue	1,057,890	1,057,890	921,422	(136,468)
Charges for Services	295,500	295,500	298,124	2,624
Miscellaneous	855,500	855,500	367,858	(487,642)
Interest	10,000	10,000	4,173	(5,827)
Total Revenues	<u>7,405,890</u>	<u>7,405,890</u>	<u>7,187,421</u>	<u>(218,469)</u>
EXPENDITURES				
General Government	3,141,050	3,266,650	2,567,508	699,142
Protection to Persons and Property	616,300	704,100	608,314	95,786
General Health and Sanitation	963,200	981,200	895,454	85,746
Social Services	120,000	127,000	116,919	10,081
Recreation and Culture	289,100	307,100	244,189	62,911
Debt Service	1,022,540	293,120	13,485	279,635
Capital Projects	50,000	50,000	3,954	46,046
Administration	2,015,480	1,702,000	1,264,703	437,297
Total Expenditures	<u>8,217,670</u>	<u>7,431,170</u>	<u>5,714,526</u>	<u>1,716,644</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(811,780)</u>	<u>(25,280)</u>	<u>1,472,895</u>	<u>1,498,175</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money	1,000,000	1,000,000		(1,000,000)
Transfers From Other Funds			837,049	837,049
Transfers To Other Funds	<u>(563,220)</u>	<u>(563,220)</u>	<u>(1,563,000)</u>	<u>(999,780)</u>
Total Other Financing Sources (Uses)	<u>436,780</u>	<u>436,780</u>	<u>(725,951)</u>	<u>(1,162,731)</u>
Net Changes in Fund Balance	(375,000)	411,500	746,944	335,444
Fund Balance - Beginning	<u>375,000</u>	<u>375,000</u>	<u>892,493</u>	<u>517,493</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 786,500</u>	<u>\$ 1,639,437</u>	<u>\$ 852,937</u>

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,292,100	\$ 1,292,100	\$ 1,394,007	\$ 101,907
Miscellaneous	405,000	405,000	441,967	36,967
Total Revenues	1,697,100	1,697,100	1,835,974	138,874
EXPENDITURES				
Roads	1,733,950	2,203,950	2,098,452	105,498
Debt Service	458,870	574,870	535,439	39,431
Total Expenditures	2,192,820	2,778,820	2,633,891	144,929
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(495,720)	(1,081,720)	(797,917)	283,803
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	445,720	445,720	1,200,000	754,280
Transfers To Other Funds			(400,000)	(400,000)
Total Other Financing Sources (Uses)	445,720	445,720	800,000	354,280
Net Changes in Fund Balance	(50,000)	(636,000)	2,083	638,083
Fund Balance - Beginning	50,000	50,000	65,761	15,761
Fund Balance - Ending	\$ 0	\$ (586,000)	\$ 67,844	\$ 653,844

**Reconciliation of Budgetary Schedule to Schedule of Revenues, Expenditures, and
Changes In Fund Balances - Governmental Funds - Modified Cash Basis:**

Total Expenditures - Budgetary Basis	\$ 2,633,891
To Record Capital Assets Purchased	630,631
Total Expenditures - Modified Cash Basis	3,264,522
Total Other Financing Sources (Uses) - Budgetary Basis	800,000
To Record Financing Obligation Proceeds	630,631
Total Other Financing Sources (Uses) - Modified Cash Basis	\$ 1,430,631

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 2,317,000	\$ 2,317,000	\$ 2,317,785	\$ 785
Charges for Services	22,500	22,500	38,144	15,644
Miscellaneous	130,000	130,000	158,118	28,118
Total Revenues	<u>2,469,500</u>	<u>2,469,500</u>	<u>2,514,047</u>	<u>44,547</u>
EXPENDITURES				
Protection to Persons and Property	2,026,000	2,026,000	1,927,814	98,186
Administration	561,000	561,000	555,028	5,972
Total Expenditures	<u>2,587,000</u>	<u>2,587,000</u>	<u>2,482,842</u>	<u>104,158</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(117,500)</u>	<u>(117,500)</u>	<u>31,205</u>	<u>148,705</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>117,500</u>	<u>117,500</u>		<u>(117,500)</u>
Total Other Financing Sources (Uses)	<u>117,500</u>	<u>117,500</u>		<u>(117,500)</u>
Net Changes in Fund Balance			31,205	31,205
Fund Balance - Beginning			<u>418,025</u>	<u>418,025</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 449,230</u>	<u>\$ 449,230</u>

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,000,000	\$ 1,000,000	\$ 1,198,532	\$ 198,532
Interest	1,500	1,500	350	(1,150)
Total Revenues	1,001,500	1,001,500	1,198,882	197,382
EXPENDITURES				
General Government	40,000	40,000	40,000	
Protection to Persons and Property	197,000	197,000	197,000	
Roads	404,155	404,155	404,155	
Debt Service	555,345	555,845	555,843	2
Total Expenditures	1,196,500	1,197,000	1,196,998	2
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(195,000)	(195,500)	1,884	197,384
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			363,000	363,000
Transfers To Other Funds			(363,000)	(363,000)
Total Other Financing Sources (Uses)				
Net Changes in Fund Balances	(195,000)	(195,500)	1,884	197,384
Fund Balances - Beginning	195,000	195,000	211,112	16,112
Fund Balances - Ending	\$ 0	\$ (500)	\$ 212,996	\$ 213,496

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u>	<u>Final Budget</u>
			<u>(Budgetary</u>	<u>Positive</u>
			<u>Basis)</u>	<u>(Negative)</u>
REVENUES				
Intergovernmental Revenue	\$ 6,704,000	\$ 6,704,000	\$ 2,323,175	\$ (4,380,825)
Miscellaneous			310	310
Interest	1,000	1,000	500	(500)
Total Revenues	<u>6,705,000</u>	<u>6,705,000</u>	<u>2,323,985</u>	<u>(4,381,015)</u>
EXPENDITURES				
General Government	1,013,580	1,013,580	183,289	830,291
Protection to Persons and Property	515,010	515,010	121,187	393,823
Recreation and Culture	119,840	119,840	56,601	63,239
Capital Projects	5,281,570	5,281,570	1,825,319	3,456,251
Total Expenditures	<u>6,930,000</u>	<u>6,930,000</u>	<u>2,186,396</u>	<u>4,743,604</u>
Excess (Deficiency) of Revenues Over				
Expenditures Before Other				
Financing Sources (Uses)	<u>(225,000)</u>	<u>(225,000)</u>	<u>137,589</u>	<u>362,589</u>
Net Changes in Fund Balances	(225,000)	(225,000)	137,589	362,589
Fund Balances - Beginning	<u>225,000</u>	<u>225,000</u>	<u>223,962</u>	<u>(1,038)</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 361,551</u>	<u>\$ 361,551</u>

MUHLENBERG COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**MUHLENBERG COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2009

MUHLENBERG COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

	Rail to Trails Fund	Pennyrile Narcotics Fund	Justice Center Corporation Construction Fund	Justice Center Corporation Sinking Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 102,019	\$ 266,070	\$ 631	\$ 513	\$ 369,233
Total Assets	<u>102,019</u>	<u>266,070</u>	<u>631</u>	<u>513</u>	<u>369,233</u>
FUND BALANCES					
Unreserved:					
Special Revenue Funds	102,019	266,070			368,089
Capital Projects Fund			631		631
Debt Service Fund				513	513
Total Fund Balances	<u>\$ 102,019</u>	<u>\$ 266,070</u>	<u>\$ 631</u>	<u>\$ 513</u>	<u>\$ 369,233</u>

The accompanying notes are an integral part of the financial statements

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MUHLENBERG COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

MUHLENBERG COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

	Rail to Trails Fund	Pennyrile Narcotics Fund	Paradise Park Fund	Justice Center Corporation Construction Fund
REVENUES				
Intergovernmental		\$ 763,179	\$ 12,115	
Miscellaneous				
Interest		441		10
Total Revenues		<u>763,620</u>	<u>12,115</u>	<u>10</u>
EXPENDITURES				
Debt Service				
Capital Projects			12,115	19,496
Administration		835,722		90
Total Expenditures		<u>835,722</u>	<u>12,115</u>	<u>19,586</u>
Excess (Deficiency) of Revenues Over Expenditures		<u>(72,102)</u>		<u>(19,576)</u>
Other Financing Sources (Uses)				
Transfers Out			(59)	
Total Other Financing Sources (Uses)			<u>(59)</u>	
Net Change in Fund Balances		(72,102)	(59)	(19,576)
Fund Balances - Beginning	102,019	338,172	59	20,207
Fund Balances - Ending	<u>\$ 102,019</u>	<u>\$ 266,070</u>	<u>\$ 0</u>	<u>\$ 631</u>

The accompanying notes are an integral part of the financial statements

MUHLENBERG COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009
(Continued)

Justice Center Corporation Sinking Fund	Total Non-Major Governmental Funds
\$ 513,751	\$ 1,289,045
275,000	275,000
119	570
<u>788,870</u>	<u>1,564,615</u>
790,383	790,383
	31,611
	<u>835,812</u>
<u>790,383</u>	<u>1,657,806</u>
<u>(1,513)</u>	<u>(93,191)</u>
	(59)
	<u>(59)</u>
(1,513)	(93,250)
2,026	462,483
<u>\$ 513</u>	<u>\$ 369,233</u>

The accompanying notes are an integral part of the financial statements

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MUHLENBERG COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MUHLENBERG COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2009

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u>		
Passed Through the Department for Local Government: Community Development Block Grants/State's Program and Nonentitlement Grants (CFDA #14.228)	08-006	\$ 100,000
Direct Program: Community Development Block Grants/Brownsfield Economic Development Initiative (CFDA 14.246)	Not Applicable	<u>12,115</u>
Total U.S. Department of Housing and Urban Development		112,115
<u>U.S. Department of Justice</u>		
Passed Through the Kentucky Department of Justice: Edward Byrne Memorial Justice Assistance Grant Program (Note 2) (Note 3) (CFDA 16.738)	2008-DJ-BX-0003	468,901 *
<u>U.S. Election Assistance Commission</u>		
Passed Through the Kentucky State Board of Elections: Help America Vote Requirements Payments (CFDA 90.401)	Not Available	115,425 *
<u>U.S. Department of Homeland Security</u>		
Passed Through the Kentucky Office of Homeland Security: Disaster Grants - Public Assistance (CFDA 97.036)	177-89177-00	<u>217,230</u>
Total Cash Expenditures of Federal Awards		<u>\$ 913,671</u>

* Programs tested as major programs.

MUHLENBERG COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2009

- Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Muhlenberg County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.
- Note 2 - The Kentucky Department of Justice awarded funds from the Edward Byrne Memorial Justice Assistance Grant Program to the Pennyriple Narcotics Task Force with Muhlenberg County acting as fiscal agent. The Pennyriple Narcotics Task Force is responsible for all program objectives and federal requirements. Muhlenberg County is responsible for the accounting of receipts and expenditures related to the program.
- Note 3 – The Pennyriple Narcotics Task Force staff have their vehicles serviced (oil changes, tire rotations, routine maintenance, etc) at Fourth and Main Auto Sales. The owner of this service station is the spouse of the interim director for the Pennyriple Narcotics Task Force. Expenditures to this vendor for FY 2009 totaled \$590.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rick Newman, Muhlenberg County Judge/Executive
Members of the Muhlenberg County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muhlenberg County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated August 28, 2010. Muhlenberg County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Muhlenberg County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Muhlenberg County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Muhlenberg County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2009-02 to be a significant deficiency in internal control over financial reporting.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Muhlenberg County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is included in the accompanying schedule of findings and questioned costs as item 2009-01.

The Muhlenberg County Judge/Executive's and the County Jailer's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the County Judge/Executive and County Jailer's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

August 28, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rick Newman, Muhlenberg County Judge/Executive
Members of the Muhlenberg County Fiscal Court

**Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Muhlenberg County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. Muhlenberg County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Muhlenberg County's management. Our responsibility is to express an opinion on Muhlenberg County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Muhlenberg County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Muhlenberg County's compliance with those requirements.

In our opinion, Muhlenberg County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Muhlenberg County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Muhlenberg County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Muhlenberg County's internal control over compliance.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program, will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 28, 2010

MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2009

**MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Muhlenberg County, Kentucky.
2. One material weakness relating to the audit of the financial statements is reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Muhlenberg County was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Muhlenberg County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Muhlenberg County reported in Part C of this schedule.
7. The programs tested as major programs were: Edward Byrne Memorial Justice Assistance Grant Program (CFDA #16.738) and Help America Vote Act Requirements Payments (CFDA #90.401).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Muhlenberg County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS:

2009-01 Expenditures Should Be Paid Within 30 Days In Accordance With KRS 65.140

During testing procedures over county and federal award expenditures, the auditor noted 13 instances in which expenditures were not paid within 30 days. Of the 13 instances, 3 were related to CFDA 16.738 - Edward Byrne Memorial Justice Assistance Grant Program and 10 were attributed to general expenditures of the county. Per KRS 65.140 (2), Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor. We recommend that the County ensure that all invoices are paid within 30 days in accordance with KRS 65.140.

County Judge/Executive's Response: Most instances of non-compliance are from multi-county coal severance monies that are reimbursed by KY DLG and have to be approved before payment. Vendors submit invoices which are forwarded to DLG for approval and payment. This causes a delay in the payment process. Vendors are aware of this time delay and have not indicated any problem to the county. The CFDA 16.738 expenditures mentioned are delayed because the expenditures are approved at management level at Pennyriple office in Hopkinsville, remitted to fiscal court 30 miles away, approved at fiscal court meeting and then paid after court approval. Treasurer will try to eliminate the delay as well as possible to pay the expenditures.

MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2009
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS

2009-02 The Jailer Should Ensure That All Accounts Are Reconciled Timely

During the testing of the Jail Canteen Report, the auditor encountered various problems in trying to verify the ending balance for the jail canteen account when looking at the records provided by the jailer in comparison to the bank statements. The auditor noted that the jail canteen account had not been properly reconciled and the information was not up to date or completely accurate. During our testing of the Jail Canteen Report, we noted the following:

- The beginning and ending balances did not include the First Kentucky account. The auditors realize this account is to be closed and is being held open for outstanding checks only, however, it still should be reported since a balance exists and those outstanding checks have not cleared.
- Petty cash was incorrectly reported. The petty cash amount, per discussion with the accounting system personnel, includes amounts for unexplained deposits in the receipts within the system.
- The reconciliation within the Jail Canteen Report was not done properly – the amounts reported for deposits in transit and outstanding checks were incorrect, adjustments to the bank balance for bank charges were incorrect, and adjustments were made to the bank balance for credits and debits not recorded on the books – these adjustments were added to the bank balance, but should have been adjustments to the books, and thus should not have affected the bank balance.

The auditor discussed these issues with various personnel and was told that the lack of timely reconciliation and inaccurate records were due to the accounting system being switched during October 2008. Per discussions with various personnel, it was determined that while transitioning, all information did not transfer properly. The auditor was informed that reconciliation procedures were being performed currently, and as of July 21, 2010, the account had only been reconciled through December 2008. Thus, management could not provide reasonable assurance of the ending balance.

Bank reconciliations are an important internal control that is key in providing assurance in regards to the integrity of financial records. In addition, reconciling bank account balances enables management to identify adjusting entries needed to properly report cash balances.

Without timely reconciliations, the possibility of fraud and/or errors can go undetected. In addition, reconciling items may not be properly identified and resolved in a timely manner. Without being able to adequately reconcile all account information, it leaves open the possibility of misappropriation of assets, the reporting of incorrect cash balances, and misstated financial statements.

We recommend that the Jailer ensure all support for receipts, expenditures and any adjustments be maintained and be properly reconciled to the books to ensure proper recording. We further recommend that the Jailer ensure that bank reconciliations are done monthly, with all reconciling items investigated and resolved when discovered. The reconciliations should be reviewed and approved by the Jailer, documenting the review by initialing the reconciliation

Jailer's Response: During the change of jail management systems from Jailtracker to BluHorse, all financial records did not transition properly. As of today 9/17/10 all records are up to date and are attached to this paperwork.

MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2009
(Continued)

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT**

None.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

MUHLENBERG COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2009**

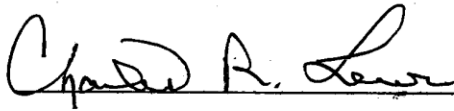
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
MUHLENBERG COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2009

The Muhlenberg County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

